

## Briefing

# The national natural gas policy of Tanzania

Tanzania's first National Natural Gas Policy (the **Policy**) was finally published by the Ministry of Energy and Minerals in November, just over a year after the first draft was released to the public for comment. The Policy was approved by Cabinet on 10 October 2013 and while not legally binding, it represents the first step taken by the Government of Tanzania in the development of a new legal and regulatory framework intended to prepare the country to become a major natural gas producer. In this briefing we review the evolution of the Policy over the last year, evaluate the key final terms and consider likely next steps.

## The Policy

The main objective of the Policy is said to be "to provide guidance for the sustainable development and utilization of the natural gas resource and maximization of the benefits therefrom and contribute to the transformation and diversification of the Tanzanian economy". The Policy also makes clear that it will address only mid and downstream segments with upstream issues to be covered by a separate policy.

The document is broken down into six chapters which we have summarized below.

### 1 Introduction and status of natural gas development

The introduction notes that the Policy has been formulated to rectify shortcomings in the existing legislative and policy framework. The substance of the approved version of this chapter has remained largely unchanged from the first draft

though the "creation of an environment to attract local and foreign investment in the natural gas industry" has been added to the list of challenges facing the sector. The addition is one of a number of more "investor-friendly" changes made throughout the document from the first to the final version.

### 2 Justification, pillars and objectives of the Policy

This chapter sets the scene for the Policy and has been expanded upon since the first draft. Although the primary theme of ensuring optimal benefits to the people of Tanzania remains the same, a sub-section addressing pillars of the Policy (a list of sub-themes that feature in other chapters) has been included and other additions to the list of main objectives has been made. The statement that "Natural Gas will be exported when domestic market has been satisfied" has been added under the 'Main Objective' heading.

### 3 Fundamental policy issues and statements

The chapter on fundamental policy issues and statements contains a number of significant provisions and has been developed during the course of the last year.

In relation to the development of natural gas infrastructure, an earlier provision that the Government will own the main natural gas infrastructure during its infancy stage does not appear in the final draft but there are clear references to the Government participating strategically in the development and operation of major infrastructure through its national companies. This main policy issue on this topic has been extended to recognize that natural gas infrastructure will also serve international markets. Whereas the first draft of the Policy stated that the gas suppliers, distributors and marketers “will obtain their gas supplies from the natural gas aggregator who will be national company responsible for development of petroleum or its subsidiaries”, the final version is less specific and merely states that a natural gas aggregator will be established to “ensure efficiency and reliable supply of natural gas”. The Aggregator is defined as “A fully owned State enterprise (a subsidiary of the National Oil and Gas Company), which will have exclusive rights to purchase, collect, transport and sell natural gas produced in the country-onshore, shallow-shore and offshore”.

The section in the Policy on natural gas for the domestic and export market has developed between the drafts but has throughout maintained that domestic market would be given first priority over the export market. The final version of the Policy makes a clear distinction between the supply of gas for local consumption (to include production of LPG, LNG, GTL and NGL for the domestic market) and maximizing gains from the natural gas export business.

In relation to management of natural gas revenue, the establishment of a Natural Gas Revenue Fund is contemplated and a recent addition to the document is that guidelines will be developed through “national dialogue” on the use of the fund.

Local content and capacity building is a theme which has attracted a high degree of public scrutiny and the policy statements in this area have again developed through the various drafts of the Policy. In the approved draft, statements to ensure that opportunities for the supply of goods and services, skills development and technology transfer are made available to Tanzanians have been softened to make clear that the Government will “work with International Oil and Companies” towards the achievement of these aims. Equally, a previous statement to ensure that companies participating in the natural gas value chain list on the Dar es Salaam Stock Exchange now reads “Work with International Oil and Gas Companies to explore possibilities that companies participating in natural gas value chain are listed on the Dar es Salaam Stock Exchange”.

The chapter also contains general provisions relating to natural gas pricing (which should sustain both supply and demand sides); security of natural gas infrastructure and supply; linkages with other strategic sectors; corporate social responsibility; efficiency and conservation; regional and international co-operation and public awareness and expectations from the natural gas industry.

### 4 Fiscal, legal and regulatory framework

The approved version of the Policy now makes specific reference to the enactment and amendment of specific legislation including the Natural Gas Act, Natural Gas Revenue Management Act, Income Tax Act (Cap. 332) and EWURA Act (Cap. 414) and also includes a sub-section on the fiscal regime to be applied which was not covered in previous drafts. The fiscal regime draws a distinction between the regime to be applied to mid and downstream activities and upstream activities which shall have separate fiscal treatment.

### 5 Institutional framework

A number of roles are prescribed here for Government, the National Oil and Gas Company and the regulatory authority.

From the second draft onwards, the Policy makes reference throughout to a National Oil and Gas Company (defined as “An oil and gas company established under the laws of Tanzania in which the Government or its agent owns fifty one percent or more of the shares”) and avoids specific reference to the Tanzania Petroleum Development Corporation. The Policy also makes clear that commercial and regulatory roles shall be carried out separately by relevant entities and a robust natural gas regulatory authority is to be established.

The National Oil and Gas Company will have a number of roles including acquiring and owning land for key natural gas projects (an addition from the previous draft); participating in and owning strategic natural gas projects and businesses on behalf of the Government and establishing and enabling an Aggregator who will develop, own, and manage the major infrastructures for the mid and downstream natural gas sector (including the pipeline network, gas processing facilities and the central gathering stations – in the latter case either jointly with the producers or on its own).

A more extensive monitoring and evaluation framework was included in later drafts of the Policy including a specific list of deliverables containing the following:

- Natural Gas Act and Regulations.
- Natural Gas Utilization Master Plan.
- National Gas Company and its subsidiary companies.
- Natural Gas Revenue Fund.
- Communication Strategy to facilitate feedback from stakeholders.

### Further information

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## 6 Way forward

The Government outlines its commitment to ensure timely implementation of the Policy with an ultimate goal of improving the quality of life of Tanzanians for many decades to come.

### Next steps

While not legally binding, the Policy does provide a useful indication of the Government of Tanzania's views on a number of issues. The development of the Policy through its draft phases has also illustrated the extent to which the Government is prepared to take on board the views of stakeholders in the formulation of policy objectives.

Oil and gas companies operating in Tanzania will continue to have questions on major issues relating to ownership of natural gas infrastructure, domestic market obligations, local content, the

precise role of the Aggregator and the structure of the National Oil and Gas Company and the answers to the questions will only become clearer once the Government begins to implement the Policy through the creation of binding legislation and regulations.

With every Parliamentary Bill requiring three hearings and Presidential assent before coming law, sector investors will hope to see this process start as soon as possible.